

State Fiscal Management Reform Activity – (REFORM)

Development prospects for Indian states, and for the country as a whole, are jeopardized by structural weaknesses in public finance at the state level. These weaknesses include: (a) lack of adequate revenue and expenditure forecasting; (b) inefficiency in resource mobilization, both tax and non-tax; (c) ineffectiveness of resource allocation and use, especially in social and physical infrastructure; and (d) unsustainable patterns of expenditure, including inefficiency of public enterprise performance.

The weaknesses are a result of an absence of analytical capacity and institutional structures and/or systems, especially within the key state departments of finance and planning that prevent forward-looking fiscal decision-making grounded in careful analysis and good governance. In short, Indian states currently lack the analytical capacity and the institutional infrastructure required to run a good fiscal policy.

With little incentive, limited skills and an inadequate information base to ask penetrating questions about the impact of policy, procedural and regulatory decisions on the fiscal health of their state, the states can neither successfully fend off populist fiscal decision making nor productively absorb budgetary support to promote and sustain fiscal reform.

The purpose of USAID/India's REFORM project is to provide technical assistance and training (currently targeted to three states - Karnataka, Uttaranchal and Jharkhand) to strengthen their fiscal analytical capacity and fiscal management structures and systems to enable states to make fiscal decisions and budget preparation based on more accurate data and sound analysis. The mandate of the REFORM project is to help:

- Establish a fiscal planning and analysis cell (FPAC) in the Department of Finance of the respective states
- Establish or strengthen the states' debt/investment management cell (DIMC)
- Strengthen the states' payment and receipt mechanism, including treasury operations
- Develop and/or improve relevant databases and management information systems (MIS), including the human resources database, procedural/ operational manuals
- Improve state-level procurement policies and systems
- Strengthen the capacity of the states' project appraisal units, both in the department of finance and planning
- Improve socio-economic data collection and assessment, segregated where possible by socio-economic groups, including gender
- Build capacity of states' training institutes to provide better training in fiscal management and public finance

The program is based on hands on technical assistance and training by international experts and in-country specialists. Three local offices have been established in each of the three states to house consultants that will be based here for the duration of the program - to facilitate day-to-day work with the state governments. The ultimate aim is

not only to upgrade the states' skill base in public resource management but also to improve transparency, integrate data bases for smoother information flows and institutionalize the knowledge/skill base by involving other state level administrative and technical departments.

As the REFORM project makes progress, it will try to create forums and platforms to share the lessons learned on the ground in India (i.e. the best practices, including tools, techniques and documentation) with other states in India through a series of networks that it hopes to establish in each one of the above areas.